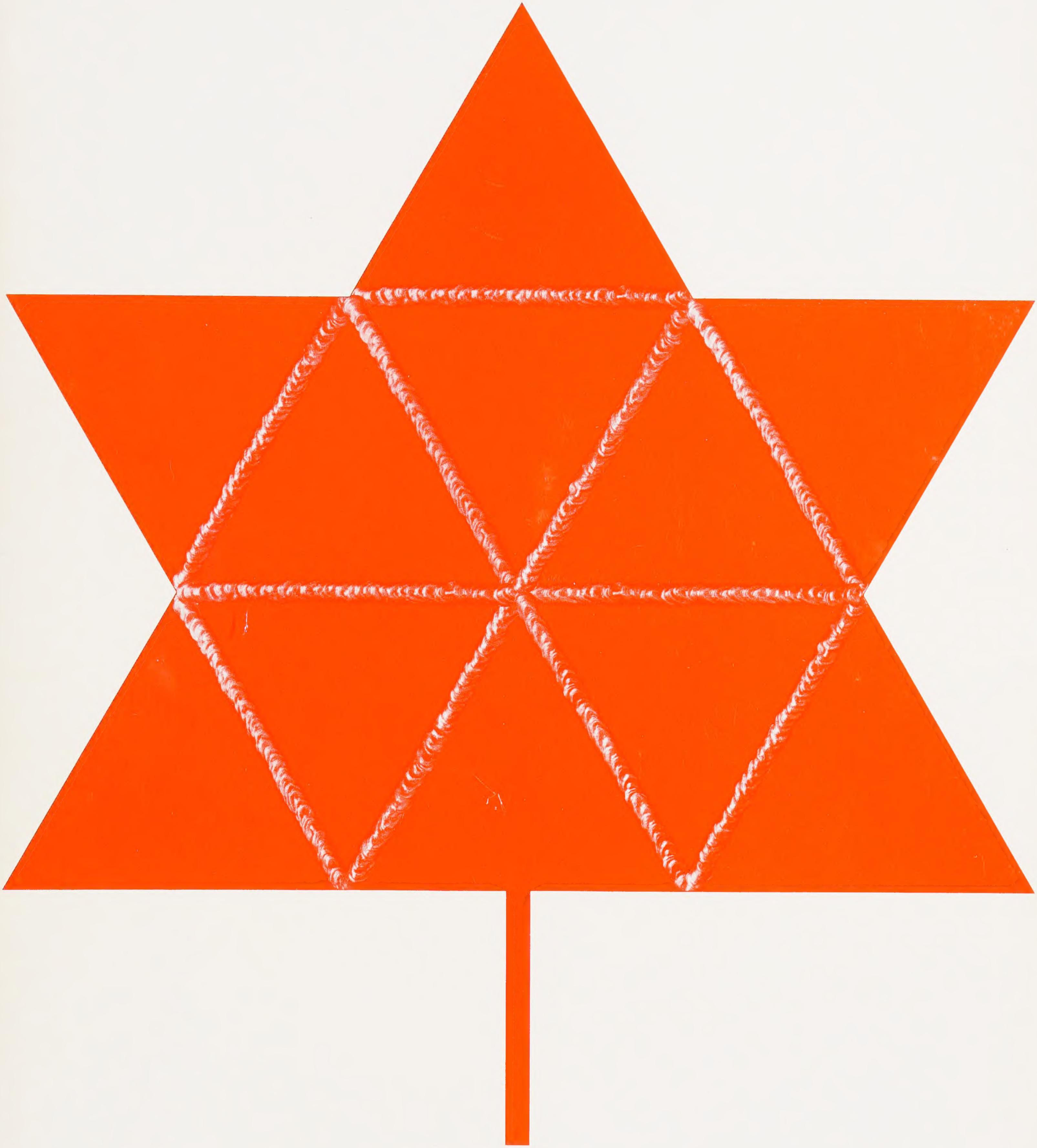
Imasco Limited Annual Report 1978



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Cover: "The business community of Canada has an important part to play in welding together the materials that go to make up our nation."

Si vous désirez recevoir ce rapport annuel en français, veuillez vous adresser à:

Le Secrétaire
Imasco Limitée
4, square Westmount
Montréal (Canada)
H3Z 2S8

Imasco Limited is a multi-divisional corporation manufacturing consumer products and supplying consumer services in Canada and the United States. Principal products are tobacco and food. Services consist of retail outlets specializing in tobacco products, health and beauty aids, prescription drugs, sporting goods, gifts and sundries.

Directors
Paul Paré[1,3]
John H. Coleman[2,3]
Purdy Crawford, Q.C.[1,2]
Peter Kilburn[1,3]
Murray B. Koffler, C.M.
L. Edmond Ricard[1]
Jean H. Richer[2]
George G. Ross, C.A.[1]
John J. Ruffo
Robert T. Ruggles
Hubert B. Wells

Officers
Paul Paré, President
L. Edmond Ricard, Executive Vice-President
Roger S. Ackman, Vice-President and General Counsel
Norman A. Dann, Vice-President
Ronald F. Findlay, C.A. Vice-President
Roderick C. Foster, C.A., Vice-President and Corporate Comptroller
Matthews Glezos, Vice-President and Treasurer
Bernard W. Matte, Vice-President
George G. Ross, C.A., Vice-President
John J. Ruffo, Vice-President
Robert T. Ruggles, Vice-President
Paul K. Ryan, Secretary
John N. Economides, Assistant Treasurer
Wendy V. Agnew, Assistant Secretary
Ronald M. Statham, C.G.A., Assistant Comptroller

[1] Member of the Executive Committee
[2] Member of the Audit Committee
[3] Member of the Salary Committee

Head Office:
4 Westmount Square
Montréal, Canada H3Z 2S8
Telephone (514) 937 9111
Telex 05 24176

Financial Results at a Glance

	1978	1977
	Thousands of dollars	
Sales	1,049,421	1,031,642
Earnings before extraordinary item	43,078	34,921
Net earnings after extraordinary item	40,734	35,215
Earned per common share before extraordinary item	$4.42	$3.58
Earned per common share after extraordinary item	$4.18	$3.61
Dividends per common share	$1.44	$1.35
Working capital	214,747	182,823
Total assets	478,821	455,278
Shareholders' equity	232,876	206,411

Sales for the year ended March 31, 1978 were $1,049,421,000, an increase of $17,779,000 or 2%.

Earnings before an extraordinary item were $43,078,000 or $4.42 a share, an increase of $8,157,000 or 84 cents a share. After the extraordinary item, earnings were $40,734,000 or $4.18 a share, an increase of $5,519,000 or 57 cents a share.

The extraordinary item of $2,344,000 represents a loss on the sale of the assets of the Company's west coast food operations in the United States.

Imperial Tobacco Limited surpassed its excellent performance of the previous year. Both sales and earnings were up substantially. Three new brands in the "light" category, introduced in the previous year, continued to gain in popularity. Two further brands in this category were introduced in 1977, du Maurier Special Mild and Medallion. All five have attracted an increasing number of Canadian smokers. Imperial Tobacco's share of the total Canadian cigarette market increased again during the year.

Food operations showed increases in profitability, in spite of the sale of two U.S. companies. S and W Fine Foods and Piñata Foods of San Mateo, California, were sold in August 1977 to Standard Brands Incorporated, New York. While S and W enjoyed a long-established reputation for quality products, and Piñata's Mexican foods were an area of growth, national extension of these companies' products required greater distribution facilities than the Company could provide.

Dividends

The quarterly dividend was increased in December 1977 to 37 cents a share, the maximum permitted under the Anti-Inflation Board regulations. Total dividends for fiscal 1978 were $1.44 a share.

Change in capitalization

The class B common shares were created in 1974 to provide tax-paid dividends. However, the relevant provisions of the Income Tax Act (Canada) containing this special tax treatment are scheduled to expire December 31, 1978.

At the annual and special meeting of shareholders on July 5, 1978, a special resolution will be proposed to reclassify the A and B shares into one class of common shares and permit the directors to declare stock dividends. Under the terms of the special resolution, holders of common shares may receive stock dividends instead of cash dividends. Full details of the resolution are set out in the Management Proxy Circular which was mailed to all shareholders June 14, 1978.

Koffler Stores Limited

On November 16, 1977 the Company announced that an agreement in principle had been reached to acquire Koffler Stores Limited. Koffler Stores is a Toronto-based company operating a Canada-wide chain of 373 franchised drug stores under the name Shoppers Drug Mart, dry cleaning shops under the name Embassy Cleaners and, in Québec, Pharmaprix Drug Stores in partnership with a Québec retail company.

At a special meeting on February 15, 1978 shareholders of the company approved the creation of a new class of $35 stated value preference shares. The offer for Koffler Stores consisted of one of these preference shares plus $55 cash for each 10 common shares of Koffler. These terms were endorsed by the directors of Koffler Stores and their acceptance was recommended to their shareholders.

The Company's formal offer was mailed to Koffler's shareholders on March 29, 1978. I am pleased to report that by May 31 in excess of 99% of the Koffler shares had been tendered.

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The acquisition is a major step in the expansion of our specialized retailing activities. Top Drug Marts will be merged with the Shoppers Drug Mart group.

The preference shares issued in connection with the Offer will, until June 30, 1981, be convertible into common shares of Imasco Limited.

One of the undertakings we gave to the Foreign Investment Review Agency in connection with our purchase of Koffler was that we shall use our best efforts to increase Canadian ownership. This is in line with our present policy and with our intention to expand. The increase in Canadian ownership will be brought about by issuing shares. Such issues will only be used to take advantage of opportunities that would be beneficial to all shareholders and lead to an increase in both the earnings and underlying value of each individual share. Our principal shareholder has stated that it has no intention of selling any part of its equity but would be willing to remain a shareholder with a smaller percentage ownership in the larger and more prosperous company.

Organization

Because of our expansion plans and the need to have a central office for all of our non-tobacco businesses we have revised the divisional structure of the Company. On April 1, 1978 the food operations were combined with our retail activities in a reorganized division, Imasco Associated Products Limited. A strong management team has been appointed to conduct the affairs of the division under the presidency of George G. Ross, who was formerly vice-president, finance, at the Imasco head office. The new divisional headquarters will be situated in the Royal Bank Plaza, Toronto, Ontario.

Investments

In our last annual report we announced that the Company had purchased for U.S. $12.50 each 1,200,000 4% voting cumulative preferred shares of Hardee's Food Systems, Inc., a North Carolina company engaged in the fast food restaurant business. On March 20, 1978 Pet Incorporated of St. Louis, Missouri, announced an agreement in principle had been reached for Pet to acquire Hardee's. The Company has agreed to sell for U.S. $20.50 each its shares to Pet if the shareholders representing a majority of the outstanding common shares of Hardee's vote in favor of the transaction. Indications are that the offer will be accepted by the Hardee's shareholders.

Board of Directors

Mr. Hubert B. Wells, a director since December 1, 1976 retired from the Company on March 31, 1978 and will not stand for re-election. We thank him for his counsel as a director and for his many years of valuable service with the Company. Mr. Murray B. Koffler was appointed a director on June 1.

Outlook

We enter our new fiscal year as a strong and vital company. Based on our achievements in the recent past we believe we are justified in forecasting a year of growth and increased profitability in all areas of our operations. This year will see the phasing out of the Anti-Inflation Board and its replacement with a new body to oversee the economy, the Centre for Inflation and Productivity Analysis. While the business community will welcome relief from the restrictions of the A.I.B. regulations, the appointment of this new agency is a warning, if we needed one, that we have no grounds for believing that the spectre of inflation has been exorcised. The coming year must be marked by a common restraint in our demands on the economy if we are to preserve and improve upon the small gains achieved in lowering the rate of inflation in the last three years.

Our Canadian employees have displayed a commendable understanding of the economic plight of the country during this difficult period. I thank them and our employees in the United States for their work and their personal commitment to the growth and prosperity of the Company.

Canada's Future

I look forward into the future of Canada with confidence in its survival as one country and optimism about its economic prospects. This may seem a strange point of view to those who can see only the problems we face at the moment. And it is true that these problems are many and their solution will tax all our powers of analysis and all our energy in applying the remedies.

We have high unemployment, we have high inflation, a heavy trade deficit and the value of our currency has declined on world markets. In addition to these economic woes, we have a provincial government determined to leave Confederation and pursue its own way as an independent country.

In the face of these problems it is certainly not easy to be sanguine about the future. But the building of Canada and its maintenance as an independent country has never been an easy task. Canada exists and will continue to exist and prosper only through the hard work, mutual understanding and the collective will of its people. We have faced and overcome worse situations and surmounted greater obstacles in the past. The will and the energy of our people that enabled us to do so must surely still be there. What I see of the youth of our country leads me to believe that it is. But each of us, regardless of our age group, language, culture, or political views must put aside his immediate personal views and considerations in an effort to understand his fellow Canadian; not merely to respect his differentness, but to welcome it as a contribution to the cultural richness that is uniquely Canadian.

The business community of Canada has an important part to play in welding together the materials that go to make up our nation. Armies can conquer countries and ideologies can capture men's minds. But it is trade and commerce that bring people together in an association that puts aside personal prejudices in the shared interest of enriching mankind and improving the quality of life.

We who consider ourselves privileged to be a part of the business community know this full well but we are also aware that our views are not always shared by others.

We have, however, thrived through adaptation. If we have a lesson to teach it is that growth, indeed survival itself, can be assured only by a willingness to change and adapt.

The business community of Québec has the opportunity to set an example to the rest of Canada. We have lived, grown and prospered in the heart of French Canada and we have a bright future here. While we believe that Canada must continue to be one country, we can see the need to adapt and to welcome the burgeoning interest of francophone citizens in making a career in business. It is in our interest and in that of the country as a whole for us to foster this trend. We shall not offer favours, but rather opportunity. We must not try to change others, but rather accept change and seize every opportunity to put it to our common advantage.

The other provinces of Canada are watching the events unfolding in Québec with some anxiety. Without the advantage that we have of being on the scene and involved in the changes that are taking place, perhaps some apprehension is understandable. It is our particular responsibility in the business community, we who have lived and worked successfully in this dynamic and evolving society to reassure our fellow citizens that the heart of Québec remains staunchly Canadian. It is true that our environment is changing rapidly and many of the changes will never be reversed. But many of the senseless regulations will inevitably be abolished or modified as they are seen to impede the reaching of our common goal of a successful Canadian partnership.

The business community of Québec finds itself in the centre of the controversy because it is seen as the gateway to a wider world. So long as the francophone Québécois was content to remain outside the field of business, so long was his world confined to Québec. The new generation has broader ambitions and is knocking at our gates. It is our responsibility now to open them wide, to welcome our francophone compatriots and let them find their own way and in their own fashion in a community of endeavour that has enabled us to contribute to the creation, building and enrichment of a nation.

The problems of Canada are large and will not be easily solved, but this is our challenge and their solution is our task. This is not the time to lose heart. I cannot add to the words of the report of the Royal Commission on Bilingualism and Biculturalism in 1964: "Canada will continue to exist, it will grow and progress, will surmount the present crisis, if Canadians have the will — a will like that of the men who built the country."

On behalf of the Board of Directors

Paul Paré, President
Montréal, June 1, 1978

Tobacco division sales were $655,010,000, an increase of 8% compared with sales of $605,411,000 in fiscal 1977. Earnings were $68,322,000, up 12%. Earnings in the previous year were $60,891,000.

Cigarettes

After adjusting for trade inventories, total industry sales of cigarettes during our fiscal year were up 2%. Imperial Tobacco's unit sales were 24.4 billion, an increase of 6% over the previous year. The total industry increase in sales was captured by Imperial Tobacco whose new brands in the "light" category enjoyed remarkable success.

Player's Light, du Maurier Special Mild, Matinée Special Filter, Cameo Extra Mild and Medallion have achieved popular acceptance all across Canada and sales continue to increase. "Lights" now account for 16% of the Canadian cigarette market and Imperial Tobacco's brands hold in excess of 50% of this growing segment. Most of these new cigarettes are extensions of well-known, established brands long associated by the Canadian smoker with quality and smoking satisfaction.

While the trend to "lights" was anticipated, their successful realization was achieved only through skilful blending of tobaccos and the development of new materials and filtering processes.

Imperial Tobacco now supplies 40% of the total Canadian cigarette market.

Prices and Taxes

The four major manufacturers increased cigarette prices in the last quarter of calendar 1977. The increase was modest in comparison with the higher taxes on all tobacco products imposed by most provinces in the past year.

Cigars and Cut Tobacco

Industry sales of cigars, pipe tobaccos, and roll-your-own cigarette tobaccos all declined at a rate of approximately 8 to 10% over the year.

Imported brands continued to gain an increasing share of the sales of pipe tobaccos. One major move in the area of pipe tobaccos was that Imperial Tobacco negotiated the distribution rights to the MacBaren range of pipe tobaccos from Harald Halberg of Denmark.

Special Events

The du Maurier Council for the Performing Arts over the past seven years has made grants totalling more than $2,500,000 in support of music, theatre and ballet across Canada. In October 1977, the Council announced a new programme, the du Maurier Search for Talent, in cooperation with the Canadian Broadcasting Corporation. This unique programme elicited some 4,000 applications leading to cross-country auditions of 1,500 promising performers.

Bursaries of $2,000 and an opportunity to appear in one of three CBC-TV prime-time television specials were awarded to the semi-finalists. Each of six finalists received an additional $5,000 and a featured part in the fourth "Final Audition" which was broadcast live from Toronto in May.

Peter Jackson cigarettes continues to present the Canadian Open, to be held June 19-25 this year at Glen Abbey, Oakville, Ontario, the permanent home of this world-famous tournament.

Another important golf event in Canada is the women's Peter Jackson Classic, held this year at the St. George's Golf and Country Club, Etobicoke, Ontario, June 1-4.

Leaf Tobacco

The 1977 Ontario flue-cured leaf tobacco crop amounted to 205 million pounds of which 70 million pounds were exported. The average price paid by the domestic buyers, including their export assistance payments, was $1.14 a pound.

In April an agreement was reached with the Ontario Flue-cured Tobacco Growers Marketing Board covering the 1978 crop. It calls for a crop of 230 million pounds with a minimum average price of $1.06^{1}/_{2}$ (1977–$1) a pound. The portion of the crop designated for export is 103 million pounds, 33 million pounds more than in the previous year. The Canadian tobacco manufacturers will provide financial assistance again this year for overseas leaf sales.

In fiscal 1978, Imperial Leaf Tobacco Company exported 20 million pounds of flue-cured tobacco.

Employee Relations

The two-year agreement with the Tobacco Workers International Union covering employees at five plants in Québec and Ontario will expire July 14, 1978.

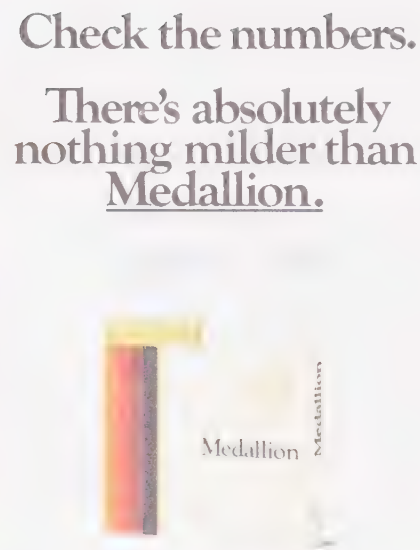
Modernization

The company has embarked on a $23,000,000, five-year programme to upgrade production facilities at all manufacturing plants.

Improvements will include new high-speed machinery, air-conditioning, noise reduction and enhancement of the working environment. The results will be more efficient facilities and a pleasanter environment for the employees.

Outlook

Continuing programmes to increase the efficiency of our operations, including manufacturing, packaging and distribution, and application of the most advanced technology in developing cigarettes to suit the unique Canadian taste should continue to assure the company's leadership in the industry. We expect sales to continue their upward trend in fiscal 1979.



Imperial Tobacco anticipated the trend to milder cigarettes with new 'light' versions of established brands. Canadian smokers who prefer a milder cigarette can now choose among a range of new products that carry on the tradition of high quality associated with well-known brand names.

Sales were $220,103,000, down 11% from last year. Earnings were $8,784,000, an increase of 24%. The decline in sales was attributable to the sale of the United States west coast food operations, S and W Fine Foods and Piñata Foods.

Progresso Foods

Progresso's major business is the processing and distribution of a line of authentic canned and bottled Italian retail grocery items. Approximately 65% of Progresso's products are processed and packaged in the company's plant in Vineland, New Jersey. The remaining 35% are purchased from domestic and foreign suppliers. Sales are primarily in the northeastern United States, with some markets in the South and West.

Progresso has concluded a licensing agreement with Casera Foods of Puerto Rico to process and distribute in the eastern United States their line of Spanish ethnic foods. Some 20 of these items are now being distributed and half of these are being produced in the company's Vineland plant. Casera is the second largest food processor in Puerto Rico. There are some three million people of hispanic descent in the New York City area and the market for these foods is estimated to be well over $100,000,000 a year.

The environment in which the company operated in fiscal 1978 was more favourable than that of the previous year. The economy was stronger, supplies of products were generally more available, cost increases were manageable and there were no energy shortages.

Progresso is continuing to develop new products. New items were introduced during the year, and plans provide for new introductions in the coming year. Extension of markets on the west coast is being aggressively pursued, and institutional and food service business is being sought.

Progresso is celebrating its fiftieth anniversary in 1978 and a year-long programme of special product promotions has been planned to take advantage of this event. These will include broadcast advertising, contests for consumers, and tie-ins with Italian holidays and festivals. The theme of the advertising is, "50 years of Progresso. That's something to sing about".

The Progresso name is renowned in its markets for high quality and authenticity in Italian foods. Marketing activities and funds are being allocated to areas where there is great potential for growth.

Unico Foods

While Unico's sales are primarily in Ontario and Québec, increased market penetration was achieved in other areas and the company is aiming at total Canadian distribution of such key product items as vegetable oils, tomato products, chick peas, and red kidney beans. Vegetable oil is one of Unico's major products and sales increased substantially as products were marketed through chain stores. These stores in central Canada are increasing their listing of Unico products and are actively promoting them.

Grissol Foods

Grissol's sales are mainly in Québec, but extension into Ontario markets is continuing. Market research is underway to determine the potential for expansion of three major product lines, Melba toast, bread sticks and biscotte.

Viau's biscuits and candies had a record year of sales and increased their share of these markets.

The Taillefer division's sales of prepared meat products achieved a record last year in spite of an industry wide depression in the sales of these products because of high material costs. With the division's Magog, Québec plant now fully on stream, sales are expected to be even higher in fiscal 1979.

In 1977 the Taillefer division introduced on the Québec market a high quality line of French charcuterie under the brand name La Varenne. La Varenne products meet the highest standards for these world famous foods and there is a market for them in the food service business in addition to that of the domestic consumer. Promotion of these products in selected market areas is being pursued.

Sales of the Montmagny division, which produces biscuits and candies, showed a satisfactory increase during the year. Modernization of the manufacturing facilities is underway and this should further improve profitability of this division.

Outlook

All products of the group are specialty foods recognized for their quality, their special appeal in their markets, and all have loyal followings. Emphasis is being placed on extending markets, developing and introducing new products, and increasing the efficiency of manufacturing processes and distribution. Earnings should increase in fiscal 1979.

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1 A bountiful harvest of clams aboard Progresso's "American Patriot" assures a continuing supply of delicious Italian sea food sauces.

2 Standing, Joseph F. Puglisi, George G. Torggler and R. Bruce Fraser, vice-presidents, and Gasper Tarmina, president, Progresso Foods.

3 Edward C. Pasquale, Jr., president, Frank Mattucci, general manager, and Georgina Madott, secretary-treasurer, Unico Foods.

4 Robert C. Nadeau, vice-president and secretary, Grissol Foods Limited and general manager, Taillefer division; Pierre Denault, general manager, Grissol division; Gérald Pelletier, vice-president, Grissol Foods Limited and general manager, Viau division; and Fernand Boulet, general manager, Les Biscuits Montmagny, Inc.

Sales of retailing operations were $199,440,000, a decrease of 4%. Earnings were $6,847,000, an increase of 1%.

Increases in sales marked the performance of all areas of our specialized retailing in Canada although the year was the most difficult in decades for retailing in general. Anti-Inflation Board regulations continued to have a negative impact on margins.

United Cigar Stores

United Cigar Stores Limited is a Canadian retail company employing some 2,000 people and operating 381 outlets across Canada. The basic business of the company is the retailing of tobacco products, convenience items, newspapers and magazines, greeting cards and gifts. The various types of outlet are the traditional UCS street store; tobacco departments in Woolco Stores; The Lamplighter, high quality tobacco stores; The Den for Men, male-orientated gift shops.

UCS also operates shops in major hotels and airports in Canada featuring tobacco, gifts, books, magazines and newspapers. These shops are stocked to meet the needs of their particular clientele and individually designed to enhance the environment in which they are situated.

The lower value of the Canadian dollar, the elimination of taxes on hotel accommodations in Ontario and Québec, the two largest provinces, and the expected relaxation by the United States government of convention expense restrictions should help to encourage tourism and increase sales, particularly in our hotel outlets.

UCS plans to open 20 new stores in fiscal 1979.

Top Drug Mart

Top Drug Mart is a chain of 63 stores specializing in health and beauty aids and prescription drugs. There are 58 drug marts and 1 health and beauty aids store in Ontario, and 4 health and beauty aids stores in Québec. Prescriptions and pharmacy related sales increased substantially during the year. Profitability was also up sharply.

Top Drug Mart has been pursuing a policy of upgrading the quality and appearance of its stores and the performance of sales staff through regular training programmes. These improvements have contributed to the general public confidence in Top Drug Marts as stores where the customer can expect professional service at prices that are better than competitive.

During the year, pharmacies were opened in Merivale Mall, Ottawa; Iona Square, Mississauga; Battlefield Square, Stoney Creek; and in Sarnia.

Collegiate/Arlington Sports

Collegiate/Arlington operates a chain of 21 sporting goods stores from Québec to British Columbia. In six years Collegiate/Arlington has grown into Canada's leading retailer of sporting goods. The stores are now widely recognized for their full range of sports equipment, clothing and accessories, knowledgeable and friendly sales staff, and low prices.

Expansion continued through the year. New stores were opened in Toronto, Kitchener, Montréal and Calgary, and the West Island store in Montréal was expanded to almost three times its former size. To meet the demands of this expanding chain, organizational changes have been made to improve inventory control and distribution. The operations of three Toronto and one Montréal warehouse were moved to one new location in Toronto which will also house the head office of the group.

Training courses have been developed for all staff levels with emphasis for sales personnel on product knowledge, salesmanship and security.

Built around a new slogan, "The More Sports Store", an exciting advertising programme has been created for the coming year to increase awareness of Collegiate/Arlington as the first and best choice for all sporting goods.

A substantial percentage of sporting goods is imported and the decline in the value of the Canadian dollar will affect prices in the coming year. Import quotas and tariffs on some goods will also have an adverse effect on supplies and prices. However, the outlook for sales and earnings in fiscal 1979 is good and plans call for several new store openings. The continuing growth of interest in physical fitness and participation in outdoor sports should assure a bright future for Collegiate/Arlington Sports.

The Tinder Box International

The Tinder Box is a national chain of 161 licensed, franchised and company-owned tobacco shops in the United States. These stores are strategically located in shopping malls and other high pedestrian traffic areas. Distinctively designed to create an image of quality, the shops feature their own lines of pipes and pipe tobaccos as well as smokers' sundries and gifts. The Tinder Box exceeded its target for sales and earnings in fiscal 1978. Nine stores were opened during the year and a number of openings are planned for the coming year.

Outlook

Costs of retail operations continue to rise. Higher minimum wages, particularly in Canada, and the costs associated with leased premises are problems that can be overcome only by increased efficiency and higher volume of sales. All our retail operations are expanding and the outlook for fiscal 1979 is for increased profitability.

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1,2 A full range of equipment for sports enthusiasts of all ages at Collegiate/Arlington Sports.

3 A new concept in the retailing to tobacco and related items. The Lamplighter, Bayview Village, Willowdale, Ontario.

4 Access to computerized medication records provides added protection for clients at Top Drug Mart prescription departments.

5 Shoppers Drug Mart, Eaton Centre, Toronto, Ontario.

Imperial Tobacco Limited
Montréal, Québec
Manufactures and distributes cigarettes, fine cut tobaccos, pipe tobaccos, chewing tobaccos and snuff.

Paul Paré, Chairman of the Board
L. Edmond Ricard, President
Jean-Louis Mercier, Executive Vice-President
Clifford Warren, Executive Vice-President
Marius Dagneau, Vice-President
E. Peter Gage, Vice-President
Robertson M. Gibb, Vice-President
Anthony I. Kalhok, Vice-President
André Laporte, Vice-President
Claude Mercier, Vice-President
William J. Ross, Vice-President
J. I. Leonard Storey, Vice-President
William J. Harris, Secretary
Robert Bégin, C.A., Comptroller

General Cigar Company Limited
Montréal, Québec
Manufactures and distributes cigars.

Imperial Leaf Tobacco Company of Canada Limited
Aylmer, Ontario
Purchases and processes leaf tobacco for Imperial Tobacco and for export.

Imasco Associated Products Limited
Toronto, Ontario
Paul Paré, Chairman
George G. Ross, C.A., President
Ronald F. Findlay, C.A., Executive Vice-President
John J. Ruffo, Executive Vice-President
Wilmat Tennyson, Executive Vice-President

Food

Progresso Foods
Rochelle Park, New Jersey
Manufactures, imports and distributes over 150 traditional Italian food products.
Gasper Taormina, President

Unico Foods Limited
Toronto, Ontario
Markets over 175 Italian food products.
Edward C. Pasquale, Jr., President

Grissol Foods Limited
Montréal, Québec
Manufactures and distributes a variety of food products through several divisions. Grissol: Bread specialties. Viau: biscuits. candies. Taillefer: prepared meat products. Loney: dried soup mixes, soup bases. Montmagny: biscuits and candies.
Yves Hudon, President

Retail

United Cigar Stores Limited
Toronto, Ontario
A chain of 381 retail tobacco and gift shops.
Frederick C. Van Parys, President

Collegiate/Arlington Sports
Toronto, Ontario
A chain of 21 retail sporting goods stores.
Dr. Brian M. McGrath, President

Top Drug Mart Limited
Toronto, Ontario
A chain of 63 stores, mainly in Ontario, specializing in prescription and non-prescription drugs and personal care products.
Norman Latowsky, President

The Tinder Box International, Ltd.
Santa Monica, California
A franchisor of 161 retail specialty tobacco shops in the United States.
Karl Kolpin, President

Koffler Stores Limited
Toronto, Ontario
A Canada-wide chain of 373 franchised drug stores operating under the name Shoppers Drug Mart; dry cleaning outlets under the name Embassy Cleaners; and in Québec, Pharmaprix drug stores.
Murray B. Koffler, Chairman

Consolidated Statement of Earnings

	1978	1977
	Thousands of dollars	
Sales (Note 2)	1,049,421	1,031,642
Sales and excise taxes	330,258	316,378
	719,163	715,264
Operating costs	640,939	645,038
Earnings from operations (Note 2)	78,224	70,226
Interest—net (Note 3)	7,076	8,756
Earnings before income taxes	71,148	61,470
Income taxes (Note 4)	27,486	26,252
	43,662	35,218
Minority interest	584	297
Earnings before extraordinary item	43,078	34,921
Extraordinary item (Note 5)	(2,344)	294
Net earnings after extraordinary item	40,734	35,215
Earnings per common share		
before extraordinary item	$4.42	$3.58
after extraordinary item	$4.18	$3.61

Consolidated Statement of Retained Earnings

	1978	1977
Retained earnings, beginning of year	152,258	129,672
Net earnings after extraordinary item	40,734	35,215
Capital surplus	—	2,230
Goodwill	—	(1,440)
Dividends (Note 6)	(14,269)	(13,419)
Retained earnings, end of year	178,723	152,258

The accompanying notes form an integral part of these statements.

Auditors' Report

To the Shareholders of Imasco Limited

We have examined the consolidated balance sheet of Imasco Limited as at March 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Imasco Limited and its subsidiary companies our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those companies which are accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, based on our examination, these consolidated financial statements present fairly the financial position of the company as at March 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte, Haskins & Sells
Chartered Accountants
Montréal, Canada

May 29, 1978

Consolidated Balance Sheet

		1978	1977
		Thousands of dollars	
Current assets	Cash and term deposits	28,662	4,225
	Accounts and notes receivable	50,853	67,185
	Inventories (Note 7)	272,016	252,486
	Prepaid expenses	2,820	3,034
	Total current assets	354,351	326,930
Current liabilities	Bank and other short term loans	47,855	60,718
	Accounts payable and accrued liabilities	66,147	54,345
	Income, excise and other taxes	22,536	25,375
	Current portion of long term debt (Note 9)	3,066	3,669
	Total current liabilities	139,604	144,107
	Working capital	214,747	182,823
Other assets	Investments in associated companies	20,128	15,173
	Other investments	28,044	25,304
	Deferred charges	4,930	8,304
	Fixed assets (Note 8)	70,221	74,973
	Goodwill	1,147	4,594
	Total other assets	124,470	128,348
	Excess of assets over current liabilities	339,217	311,171
Other liabilities	Long term debt (Note 9)	95,511	95,920
	Deferred income taxes	9,569	7,925
	Minority interest	1,261	915
	Total other liabilities	106,341	104,760
	Excess of assets over liabilities	232,876	206,411
Shareholders' equity	Capital stock (Note 10)	54,153	54,153
	Retained earnings	178,723	152,258
	Total shareholders' equity	232,876	206,411

Approved by the Board
Paul Paré, Director
Purdy Crawford, Q.C., Director

The accompanying notes form an integral part of these statements.

Consolidated Statement of Changes in Financial Position

		1978	1977
		Thousands of dollars	
Source of funds	Earnings before extraordinary item	43,078	34,921
	Non-cash items	12,164	12,647
	Funds provided from operations	55,242	47,568
	Sale of operating units	41,263	13,336
	Working capital sold	(25,673)	(3,734)
		15,590	9,602
	Long term debt	1,682	18,480
	Sale of fixed assets	494	2,412
	Other	801	42
	Total source of funds	73,809	78,104
Application of funds	Fixed assets	17,170	17,118
	Dividends	14,269	13,419
	Investments in associated companies	3,967	10,321
	Long term debt	3,992	2,388
	Other investments	1,727	23,400
	Deferred charges	760	4,423
	Purchase of subsidiaries	—	8,256
	Total application of funds	41,885	79,325
Working capital	Increase (decrease) in working capital	31,924	(1,221)
	Beginning of year	182,823	184,044
	End of year	214,747	182,823

The accompanying notes form an integral part of these statements.

Notes to the Consolidated Financial Statements

Thousands of dollars

1. Summary of accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following:

a) Principles of consolidation
The consolidated financial statements include the accounts of Imasco Limited and all subsidiaries. Acquisitions have been accounted for as purchases and the results of operations of acquired businesses have been included from their effective dates of acquisition.
Goodwill and related costs arising from acquisitions of subsidiaries subsequent to March 31, 1974 are capitalized and amortized over their estimated lives, generally five to ten years. For acquisitions prior to April 1, 1974, goodwill on consolidation of subsidiaries was charged directly to retained earnings. Subsequent adjustments of such goodwill are reflected in retained earnings.

b) Investments
Investments in associated companies, representing significant minority interests, have been accounted for on the equity method based on their latest audited financial statements. The excess of the cost of the investments over the underlying book value of the investees' net assets at the dates of purchase has been ascribed $1,972 to productive assets and $2,807 to goodwill. The goodwill is being amortized over fifteen years.
Other investments are stated at cost.

c) Foreign exchange
United States dollar amounts have been translated to Canadian dollars on the following bases: fixed assets, accumulated depreciation and goodwill at exchange rates in effect at the appropriate acquisition dates; all other assets and liabilities at exchange rates in effect at year-end; all earnings accounts, other than depreciation and amortization of goodwill, at average exchange rates for the year. Net accumulated unrealized gains on translation have been deferred.

d) Inventory valuation
Inventories are valued at the lower of cost and net realizable value. Cost is determined for each division substantially as follows:
Imperial Tobacco: Average cost
Food: First in, first out
Retail: Average cost

e) Fixed assets
Fixed assets are stated at cost. Depreciation is calculated on the straight line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets are:
Buildings: 40 years
Equipment: 10 to 13 years

f) Pension plans
The companies have pension and retirement plans available to substantially all their employees. Current service costs are charged to income as they accrue. The unfunded liability for past service benefits is estimated at $19,503 as at March 31, 1978 (March 31, 1977 $16,960). This amount, with interest, will be funded and charged to earnings annually through 1990. An amount of $3,053 (March 31, 1977 $3,293) included in deferred charges, representing the balance of a lump sum payment made in 1972, will be absorbed on the same basis.

g) Income taxes
Income taxes are accounted for on the tax allocation basis. The major portion of accumulated deferred income taxes arises from differences between the amounts of depreciation claimed for income tax purposes and those recorded in the financial statements.

Notes to the Consolidated Financial Statements

		1978	1977
		Thousands of dollars	
2. Operating results by division	Sales		
	Imperial Tobacco	655,010	605,411
	Food	220,103	247,781
	Retail	199,440	206,871
	Interdivisional transactions	(25,132)	(28,421)
		1,049,421	1,031,642
	Earnings from operations		
	Imperial Tobacco	68,322	60,891
	Food	8,784	7,082
	Retail	6,847	6,747
		83,953	74,720
	General administration	(5,729)	(4,494)
		78,224	70,226
	Amortization of goodwill and related costs deducted in arriving at earnings from operations	579	877
3. Interest	Interest on long term debt	9,166	8,235
	Other interest (income) expense	(1,037)	708
	Income from other investments	(880)	(187)
	Equity in income of associated companies	(173)	—
		7,076	8,756

4. Income taxes

The provision for income taxes for the current year has been reduced by $2,630 as a result of the inventory credit available as a deduction in arriving at taxable income in Canada. Included in the provision for income taxes are deferred taxes of $1,838 (1977 $2,296).

		1978	1977
5. Extraordinary item	(Loss) gain on sale of operating units	(5,414)	641
	Applicable income taxes	3,070	(347)
		(2,344)	294

Effective August 28, 1977 the company sold the operations of S & W Fine Foods and Piñata Foods.

		1978	1977
6. Dividends	6% cumulative preference shares	348	348
	Common shares – Class A	13,493	12,641
	– Class B	368	352
	Tax paid to create tax-paid undistributed surplus	60	78
		14,269	13,419

The trust agreements relating to the Series A, B and C debentures contain restrictions regarding the payment of dividends. At March 31, 1978 $84,922 of retained earnings was free from such restrictions.

		1978	1977
7. Inventories by division	Imperial Tobacco		
	Finished goods	60,430	42,621
	Raw material, supplies and work in process	131,124	118,444
		191,554	161,065
	Food	35,724	55,340
	Retail	44,738	36,081
		272,016	252,486

Food and retail inventories are made up mainly of finished goods

Notes to the Consolidated Financial Statements

		1978	1977
		Thousands of dollars	
8. Fixed assets and accumulated depreciation	Land	3,375	4,934
	Buildings	42,380	44,882
	Equipment	94,829	96,559
		140,584	146,375
	Accumulated depreciation	70,363	71,402
	Net fixed assets	70,221	74,973
	Depreciation expense	8,050	8,456
9. Long term debt	8 1/2% sinking fund debentures Series A due March 15, 1991	27,650	28,700
	Less held in treasury	801	801
		26,849	27,899
	10 7/8% sinking fund debentures Series B due August 1, 1995	27,900	29,100
	10 1/4% sinking fund debentures Series C due October 1, 1990 (payable in U.S. funds)	22,678	21,078
	7 7/8% five year notes due February 14, 1982 (payable in U.S. funds)	17,008	15,808
	Other long term obligations	4,142	5,704
		98,577	99,589
	Less current portion	3,066	3,669
		95,511	95,920

Required payments during the next five years, including annual sinking fund payments on the Series A and B debentures of $1,050 and $900 respectively and $2,268 on the Series C debentures commencing in 1982, amount to: 1979, $3,066; 1980, $2,729; 1981, $2,545; 1982, $21,631; 1983, $4,488.

10. Capital stock

The capital of the company consists of:
a) 1,650,000 6% cumulative preference shares;
b) an unlimited number of preference shares, issuable in series, with the stated value for each series to be fixed by the Board of Directors, as authorized by Articles of Amendment dated February 17, 1978;
705,377 Series A preference shares were authorized on April 13, 1978. The Series A preference shares have a stated value of $35.00 per share, a fixed cumulative dividend of 5% to June 30, 1981 and 7 3/4% thereafter, are convertible into one Class A common share prior to June 30, 1981 and redeemable at the stated value to June 30, 1981 and at varying values from $36.75 to $35.00 subsequent to June 30, 1986.
c) an unlimited number of no par value Class A and Class B interconvertible common shares.
Issued are:

	1978	1977
1,191,888 6% preference shares	5,800	5,800
9,670,532 common shares	48,353	48,353
	54,153	54,153

Notes to the Consolidated Financial Statements

		1978	1977
		Thousands of dollars	
10. Capital stock (cont'd)	Class A and Class B common shares are interconvertible on a one for one basis. Class B shareholders are entitled to dividends out of tax-paid undistributed surplus and 1971 capital surplus on hand. These dividends are an amount equivalent to the dividends paid on Class A common shares less any applicable income taxes. At March 31, 1978 the number of such common shares outstanding were:		
	Class A 9,412,501		
	Class B 258,031		
	9,670,532		
11. Remuneration of directors and senior officers	Directors		
	Number at March 31, 1978, 10; March 31, 1977, 11		
	Number during the year, 11; 1977, 11		
	At March 31, 1978, six directors were officers (March 31, 1977, seven directors were officers)		
	Aggregate remuneration of directors as directors	27	22
	Officers		
	Number at March 31, 1978, 16; March 31, 1977, 16		
	Number during the year, 19; 1977, 17		
	Aggregate remuneration of officers including directors who are also officers	2,076	2,225

12. Long term leases

The companies have commitments with respect to real estate leases most of which are for terms of from five to ten years. Rentals for such leases amounted to $9,119 (1977 $9,193) and the minimum annual rental under such leases amounts to approximately $7,040 before giving effect to escalation and percentage of sales clauses in certain of the leases.

13. Anti-inflation legislation

The company and its subsidiaries are subject to the anti-inflation legislation which provides for the restraint of profit margins, prices, employee compensation and dividends. Under the present legislation the company is not permitted to pay dividends in excess of its regular quarterly rate of $0.37 per share on Class A shares and $0.3145 per share on Class B shares during the twelve month period ending October 13, 1978.

14. Additional information

On March 20, 1978 the company entered into a conditional agreement which could lead to the sale of the investment in preferred shares of Hardee's Food Systems, Inc. for a consideration of $27,895. These shares are included in other investments at a cost of $17,009.

On March 29, 1978 the company made an offer to purchase all the common shares of Koffler Stores Limited at an estimated cost of $66,267 to be paid by the issue of 705,377 Series A preference shares and cash. Subsequent to March 31, 1978 in excess of 99% of the common shares of Koffler Stores Limited were tendered.

Statistical Highlights – Ten Year Review

		1978	1977
Sales and earnings	Sales	1,049,421	1,031,642
	Depreciation	8,050	8,456
	Earnings before income taxes	71,148	61,470
	Income taxes	27,486	26,252
	Earnings before extraordinary items	43,078	34,921
	Net earnings after extraordinary items	40,734	35,215
	Earned on common shares before extraordinary items	42,730	34,573
	Per common share (in dollars)	4.42	3.58
Dividend record	On preference shares	348	348
	On common shares	13,921	13,071
	Per common share (in dollars)	1.44	1.35
Capital expenditures	On fixed assets	17,170	17,118
Financial position	Current assets	354,351	326,930
	Current liabilities	139,604	144,107
	Working capital	214,747	182,823
	Investment in non-consolidated subsidiaries including loans and advances	—	—
	Fixed assets (before depreciation)	140,584	146,375
	Fixed assets (less depreciation)	70,221	74,973
	Long term debt	95,511	95,920
	Excess of assets over liabilities	232,876	206,411
Shareholders' equity	Preference shareholders	5,800	5,800
	Common shareholders	227,076	200,611
	Per common share (in dollars)	23.48	20.74

1976-78: 12 months ended March 31.
1975: 15 months ended March 31.
1968-73: 12 months ended December 31.
1968 revised in accordance with 1969 presentation.

1976	1975	1973	1972	1971	1970	1969	1968
				Thousands of dollars, except 'per common share' statistics			
941,223	1,030,293	717,102	625,613	569,629	582,163	512,987	421,265
7,526	8,874	6,642	5,497	4,431	4,132	4,371	4,075
60,978	64,509	49,715	40,761	34,176	31,110	26,016	24,730
26,234	27,553	21,571	18,536	16,349	15,154	12,540	12,207
36,516	36,778	28,036	22,162	17,661	15,691	13,383	12,465
34,564	36,778	28,036	22,162	17,539	15,691	12,226	12,646
36,168	36,343	27,688	21,814	17,313	15,343	13,035	12,112
3.74	3.76	2.86	2.26	1.79	1.59	1.35	1.25
348	435	348	348	348	348	348	353
12,555	15,009	11,605	10,638	9,671	7,736	7,736	7,736
1.30	1.55	1.20	1.10	1.00	.80	.80	.80
12,749	15,130	13,203	5,185	6,642	12,104	4,033	4,404
295,759	279,734	209,916	186,458	174,230	173,779	167,818	125,562
111,715	162,701	111,211	89,193	68,887	74,692	72,168	36,465
184,044	117,033	98,705	97,265	105,343	99,087	95,650	89,097
—	—	—	—	—	—	—	17,855
146,392	137,177	126,145	118,368	104,563	98,031	89,360	81,257
75,816	71,712	66,843	62,826	56,087	53,508	47,056	40,221
79,768	31,882	35,005	36,667	37,349	34,476	36,956	2,261
186,055	163,356	141,346	131,212	131,556	127,031	119,221	139,746
5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,830
180,255	157,556	135,546	125,412	125,756	121,231	113,421	133,916
18.64	16.29	14.02	12.97	13.00	12.54	11.73	13.85

Auditors	Deloitte, Haskins & Sells Chartered Accountants 3210 The Royal Bank of Canada Building 1 Place Ville-Marie Montréal, Canada H3B 2W3
Transfer agents	Crown Trust Company, Montréal The Royal Trust Company, Halifax, Toronto, Winnipeg, Regina, Calgary, Vancouver
Registrars	Montreal Trust Company, Halifax National Trust Company, Limited, Montréal, Toronto, Vancouver The Bankers' Trust Company, Winnipeg, Regina, Calgary
Stock exchange listings	Montréal, Toronto, Vancouver and London, England
Banks	The Royal Bank of Canada Canadian Imperial Bank of Commerce The Bank of Nova Scotia Bank Canadian National Bank of Montreal Morgan Guaranty Trust Company of New York Bank of America
Financial calendar 1978/9	Annual and Special Meeting: July 5, 1978 Quarterly reports mailed: August, November, March Dividend dates: Common shares Preference shares, series A Quarterly; June, September, December, March 6% preference shares Semiannually; September, March Interest on debentures payable: Series A $8^1/_2$%: March 15, September 15 Series B $10^7/_8$%: February 1, August 1 Series C $10^1/_4$%: April 22, October 21

Canada Northwest Land Limited
Calgary, Alberta

Percentage owned: 21
Financial year end: September 30

	1977	1976
Revenue:	$4,620,000	$2,163,000
Earnings:	$1,448,000	$ 377,000

PoP Shoppes of America, Inc.
Denver, Colorado

Percentage owned: 20
Financial year end: December 31

	1977	1976
Revenue:	$7,447,000	$3,933,000
Earnings:	$ 351,000	$ 573,000

(U.S. Funds)

The investments in Canada Northwest Land Limited and PoP Shoppes of America, Inc. have been accounted for on the equity method. The company intends to convert a $7,000,000 (U.S.) debenture of PoP Shoppes of America, Inc. as of October 31, 1978, which would increase the company's interest from 20% to 50%.

Hardee's Food Systems, Inc.
Rocky Mount, North Carolina

Percentage owned: 29
Financial year end: October 31

	1977	1976
Revenue:	$214,389,000	$188,051,000
Earnings:	$ 6,406,000	$ 4,219,000

(U.S. Funds)

The 29% ownership of Hardee's Food Systems, Inc. assumes the conversion of preferred shares to common shares.

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